

## CalPERS Webcast Audio

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Segment: Webcast: "Personal Investment for Retirement"  
Host: Bob Burton  
Guests: Joe Dear, Geraldine Jimenez

### Audio Transcript

Host:

Welcome to this Webcast originating from the CalPERS headquarters in Sacramento. I'm Bob Burton. It's my privilege to serve as your host. Our mission today is basic training on how to supplement your retirement through effective personal investments. We draw on the expertise of two key members of the CalPERS investment staff, Joe Dear, CalPERS Chief Investment Officer, and Geraldine Jimenez, the Chief of CalPERS Affiliate Investment Programs Division. Joe, let's start with you. The minds of the public and the private investor, they're concerned about the economy and all the changes in it. What do they need to keep in mind as they move forward?

Joe Dear:

The thing we try to do, Bob, in the investment program at CalPERS is maintain perspective. Now, how do we do that? One is, what do we expect capital market, stocks, bonds, real estate, private equity to do over the intermediate to long term; Not tomorrow or next week, but the intermediate to long term. And how do we expect the performance of those asset classes to relate to each other? Will stocks do better when bonds don't do well, for example? Will real estate protect against inflation and that sort of thing? So we build a model of return assumptions for these different asset classes, what we call our capital market assumptions. And we do this for a ten year timeframe. So what we've done recently in an exhaustive process for the pension fund, and looking at those assumptions, is at holding a current level of risk that we have in that portfolio. We've actually reduced our return expectation post the financial crisis. What do I mean by that? If before the crises we expected a portfolio, a mixture of stocks, bonds, international equities, domestic equities, real estate, private equity, inflation type protective assets to make 8%, post crisis we would expect that portfolio, at the same level of risk, to make about 7.5%. So, we brought our return forecast down. So that's one perspective on the market. The other perspective is, what are people in the market thinking and feeling? Sort of what are the animals' spirits in the market? And, here you want to think about where you are in a cycle of optimism and pessimism. Think before the financial crises. Basically everyone thought that housing prices in the United States only went one direction, up. Well, we've been painfully disabuse of that notion now, but, tremendous optimism all across everywhere, in stocks, and bonds, and real estate. Post the crisis everybody generally is very pessimistic. Oh, we'll never have growth like we did before. Portfolios aren't going to earn anything like what we expected. There's no good opportunities out there. I'm going to retreat from the market. So, you have to guard against successive optimism and you have to

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guard against excessive pessimism, which what I would be worried about today. Most of all what institutional investors and what individual investors need is an understanding of what are my needs, what are my objectives in a plan, and then the courage and conviction to stick with that plan.

Host:

Is there any distinct difference between the priorities of the institutional investor and the individual investor? Are there things that the individual investor needs to look toward more than the institutional mind?

Joe Dear:

Well there are certain things about investment that are the same. But the principal difference between an institutional investor like CalPERS Pension Fund and our individual participants in the Supplemental Savings Programs and the 457 Plans is time horizon. An institution has a very long time horizon and we can take positions that say are very illiquid, that is they are very hard to sell quickly, and can hold those and then earn a premium from those. Someone who's in middle age or getting close to retirement may not want to position like that at all. So the principal difference is time horizon. But, being logical, not being too emotional, having a plan and sticking with it, those apply for individuals and institutions.

Host:

Having a plan, strategy, Geraldine, setting the strategy for an independent individual investor, what kinds of things do they need to keep in mind to develop that strategy?

Geraldine Jimenez:

First and foremost since this isn't supplemental plan and everyone we're talking to probably today has a pension plan, you need to know what your pension plan benefit is. Because you have start from that point to decide, so what do I need to add to it? So it's key, figure out what you have, what assets you have, and where you want to go in the future. As Joe was saying, the pension plan decides and they know they have a long time horizon, what's your time horizon? So, again, understand what you have, where you want to go, and then come up with the plan to do that. Think about what investment alternatives make sense for you in your lifestyle and your risk tolerance.

Host:

Risk is a big factor. To what degree should one gamble?

Geraldine Jimenez:

Well, I don't like that work gamble.

Host:

All right.

Geraldine Jimenez:

But, risk is a very personal decision. But that being said, if you don't take risk, you may not get the growth in your portfolio you need in the long term. Most investors, I just had a survey recently of public sector employees, most are very conservative, 50%. If you're very conservative and you're not taking a little risk, you may not even keep up with inflation and that's not going to help you in the long term to build that supplemental income that you need in retirement.

So, an example would be a bond fund may not be returning enough over the long term. If you have 20 years to retirement, or even ten, or even five, probably some equity, some stocks make sense. Again, you have real estate in your own personal home, but that's a little bit more illiquid. But, every individual needs to get a little bit comfortable with what their risk tolerance is and maybe think about that risk is important for growth in the long term. But, balance that out with a diversified portfolio of bonds and stocks.

Host:

Joe, what other concepts are to be folded into this whole undertaking?

Joe Dear:

Well let's expand on risk, because this is all about risk management. One of the things that Geraldine was saying is you want to have different asset types because that diversification is one of the best ways to manage risk.

Host:

Mmm-hmm.

Joe Dear:

Except in times of extraordinary crises, which we have experienced, when all assets essentially behave the same, and most normal periods, different asset classes will do well at different times. If you have a mix of assets, you can control that. A friend of mine mentioned risk for individuals. He said, well the question you want to answer is, do you want to eat well, or do you want to sleep well? Right?

Geraldine Jimenez:

I guess.

Joe Dear:

So, it's what's your attitude? Right?

Host:

Sure.

Geraldine Jimenez:  
Yes.

Joe Dear:

You know, how much loss are you prepared to take? Or, how much can you endure over a time period. Remember, having a plan, understanding what your goal is, and then being confident to stick with that plan. One of the worst mistakes any investor makes is, when things aren't going well, and really feeling the pain of regret, oh, I should have done this, or, and then making a decision. That means making a decision under conditions of stress, typically you're selling low. And, so, don't get yourself into things where if they don't go well you're so uncomfortable you can't live with it. I mean, that's one way to think about that risk topic. What's the worst thing, what could I not stand if it happened in this portfolio? Then don't go there. So, if things aren't working out, we have a down period, you can go, okay, I know one of the main characteristics of investment is cycles. The economy goes up, it goes down, and if you just wait, the economy will come back. And then you can ride those out as an institution or as an individual.

Host:

You view this investment by individuals as a very personal matter that it needs to be shaped to their attention. Why is that so important?

Geraldine Jimenez:

Well it's going back to setting goals. And every individual, and their family, their spouse needs to set goals in where they're going. So, if you plan on retiring young, 55, you probably need a plan to get there. So, answering in a very generic broad sense won't help you get to where you want to go. That being said, if you like working later to 65, you have different goals and different plans. So, every individual needs to think about what their goals are, where they're going, and then choose an asset allocation strategy that will help them get the return they need with the appropriate risk level to meet those goals. And, so, I can't answer for everyone. They need to answer that for themselves. So, starting out thinking about those goals is really important.

Host:

One of the things that we've heard in the marketplace from time to time in the headlines is the attitude that people should be aggressive, and people are frightened, and people should be less aggressive when times are good.

Joe Dear:  
Mmm-hmm.

Host:

So, what's your take on that? Is that concept just off the mark?

Joe Dear:

It's really easy to say, and really hard to do, because you're going against the crowd. What your friends are telling you is working for them, what you hear on the regular TV business news, what's being reported is what's really working for everybody. And when you say, okay, everybody's doing that, so I'm not, that means you're different. And, for awhile people are really going to question your sanity and your judge ... it's really hard to do.

Look, big institutional investors like CalPERS and individuals really ought not to be trying to time the market in the short term. Now, if you want to do that as you really get, you know, you enjoy that personally and you prepare to take the risk, you're probably not watching this show to begin with. You know, you're on your screen day trading.

But, for most people it's really understanding these cycles, and riding it out and don't try to guess the market. Don't really try to, you're not really trying to beat the market, you're trying to get the market return. And, if you do this over time, if you stick with it, you have the savings program, five, ten, 15, 20, 25 years through a career, you're going to accumulate capital that will provide for a better retirement than if you don't do that. So, this time horizon is just critical and, if you can take that longer time horizon, it can help you get through the down periods when things don't look so good.

Host:

Speak to the difference between passively and actively managed assets. Why is it important to understand these differences?

Joe Dear:

When I say get the market return, I'm saying sort of buy something that represents all the stocks in the stock market. So, a typical way of doing that is an S and P 500 index. You know, it's really interesting in investment. Lots of firms with lots of highly compensated really smart people out competing and telling you that they're going to outperform the market, but every advertisement for investment products has at the bottom, "Past performance is no prediction of future performance." And this is true. So, you can pay a lot to try to get that scale, and there are a few skillful managers out there, and we all hear about them. Right? But the average active portfolio, buying stocks, choosing, trying to catch short term trends doesn't out perform the market particularly after you calculate the fees paid for that.

The alternative is just buy market exposure. Buy the S and P 500. Buy the U.S. total stock market. Buy the world global market. It doesn't cost very much. And, if the market does well, you do. If it doesn't, you don't. But you're not paying extra costs from fee drag, which can be tremendous. Now, if you have brilliant insight and you can see that manager, Warren Buffet in the future, you know, go ahead and do that. But in our big CalPERS portfolio we spend a lot of time

looking all over the world for the best managers. And we find them and we keep them, but, you know, we don't have a 100% batting average on that, because it's so hard, the markets are so efficient. It's so hard to beat them. So, why try to beat it?

Host:

Inflation. How do people want to address themselves to inflation?

Joe Dear:

It's the biggest threat to the economic buying power of retirement savings. There are investment projects that will do that, like treasury inflation protected securities, TIPS. There are some assets, some types of real estate, some types of natural resource assets can provide some inflation protection. That's what we're doing with the large CalPERS portfolio. When you protect yourself against inflation, then you're giving some return give-up to protect yourself from the downside if it, if it happens. But there are a number of options that are available to investors who are concerned about that.

Host:

These time horizons that everyone is faced with, in deed, they are an individual consideration.

Geraldine Jimenez:

Yes.

Host:

You factor in what, social security, your pension, your intentions about working until?

Geraldine Jimenez:

Right. Absolutely. This is that three legged stool that's talked about so much, it's your pension plan, it's your defined contribution plan that you're supplementing, and your social security, should you have that, so all of these three need to be considered in your planning and, again, your goals. Also, you know, when you do look to investing, as Joe was saying, there are many different asset classes out there. You know, you could look to your provider for options as far as saving for asset allocation funds. And, let me define that for you.

Host:

Sure.

Geraldine Jimenez:

These are funds that would combine a mix of bonds and stocks and tips, as Joe was just mentioning, commodities, it could have all of these to give you that kind of diversified portfolio. One type of this fund would be a target retirement date fund. You'd say this is the day I want to retire, the year, and then you'd go into

that fund. And we would rebalance for you. We would make all the tough decisions, as Joe was mentioning, in selecting these managers, these investments.

Host:  
Right.

Geraldine Jimenez:

Or, a risk based fund would be one you say, I am a conservative investor, I want to go into this fund. And, I understand my return is going to be less, and you can see this on the disclosure material, they'll talk about that. Or, I'm an aggressive investor and I'm okay going into that fund. So you can make those choices.

Host:  
Mmm-hmm.

Geraldine Jimenez:

But then beyond that you kind of have professional advice that will reallocate the portfolios, again, choose the managers. So there are some options out there for each individual to customize to their plan.

Host:  
Joe, when people are in the marketplace they always are concerned about fees, and, what can happen to their investment with regard to that, and how that, what they should be alert to when it comes to fees.

Joe Dear:  
Right.

Host:  
Your thoughts on that?

Joe Dear:

Well there's better and better disclosure about fees. Fees can eat away at the return. Again, that's one of the reasons why passive portfolios for indexed stocks and bonds offer a lot of advantage for investors because the fees are so low versus the alternative. Geraldine mentioned something really important when she was talking about the target date retirement funds, because they take a lot of the work and a lot of the anguish out of investing for people who don't want to spend a lot of time reading about the market, or worrying about the portfolio, because we talked about having a goal, and having a plan and sticking with it. Well, as markets perform, different elements of the portfolio go up and they go down, and you need to rebalance back to your targets. Well, target date funds automatically do that rebalancing. And, rebalancing is, again, one of these things, it sounds easy. That means you're selling what's doing really well and buying what's not. When you put it in those terms it's hard to do. It's hard to do.

Bonds have been doing great, so, you know, you should be selling bonds now and buying stocks. Well, you know, that's tough post financial crisis for people to really think, gosh, I want to be expanding the equity portion of my portfolio. So, target date funds are a low cost way of accessing professional asset management and professional asset allocation. And, so they have a lot of advantages for participants in DC savings programs.

Host:

Geraldine, do you have any thoughts on the things that people really should try and avoid when it comes to shaping that personal strategy?

Geraldine Jimenez:

I think it would be perhaps just selecting one investment, because then you're not getting that diversification. And we do have many participants in our plans that will just say, well I'm not quite sure, so I'm going to choose one investment. And, generally, it's one very conservative investment. So, if you want your money to work for you and, again, push a little bit on the risk return spectrum, you need a diversified portfolio. Whatever that may be. You could use the target date funds or you could go out and get an advisor to help you kind of decide what allocation you need. So, that would be one thing I would recommend avoiding.

Host:

Joe, looking at what we discussed to date, are there any topics that have escaped your opportunity to respond?

Joe Dear:

Escape? I'll pretend (indiscernible) [00:16:52]. You know, I, I, Warren Buffet, who's probably the greatest investor of our age, once said that investing is simple, but not easy. We've been talking about the basics. And these basics serve individuals, they serve institutions, they're basically timeless in their approach. And that's really one of the important things I hope people who listen to this will keep in mind, this perspective. There's all kinds of short term enthusiasm, and all sorts of hype about who's done a really good job, or what asset class has done a really good job. But we're talking about people saving for retirement, ten, 15, 20, 30 years away. This is a different kind of approach. It requires patience, it requires discipline, it requires attention to cost. And, if people do that, they will build, they will take the, take advantage of the power of compounding, of tax free compounding, and help ease their retirement years. So, it, you know, it's the basic. Do I really need to go out to dinner? Can I cook at home and save that money, and put it in my savings plan? In 20, 30 years from now I'll be able to buy a restaurant. That's not good. To be able to, you know, you'd be able to do something really significant.

Host:

Right.

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Joe Dear:

And that's, that's what we're talking about here. So, you know, not getting swept up by the hype, the hot manager, the hot strategy, and just go, I'm going to have a slow and steady program. The other advantage you get from monthly payroll deduction is, when the market is really high, you're buying high, but when the market is down, you're buying low. And, if you just continue to contribute month after month, year after year, this averages out. And it's a very, another very powerful way of achieving the benefit of diversification.

Host:

We hear so much about day trading. There are people getting out there, getting on the computer, and making it happen for themselves. What do the two of you think about that aspect of what's happening in the trading world right now?

Geraldine Jimenez:

From my perspective, I don't do it. But I also believe in individuals, they can make that choice if they want. Now, the studies I've read, most people don't make that choice. Somewhere greater than 80% of the people really want help and they don't want to day trade. So they get the headline news. But the average person just says, I want to send my monthly contribution in, please take that and invest it for me, and I want to see my nest egg at the end of the day.

Host:

Mmm-hmm.

Joe Dear:

Not only do not many people do it, the people who do it, most of them don't do it very well. Although they'll tell you about their wins. They won't, uh. It can be very fun if you're inclined to do that. But I wouldn't day trade with my retirement portfolio. I'd set aside some funds for retirement and make sure they're very steady and they're well taken care of and well managed, and then if you want to invest in the market. But this idea of tactically timing the market and the stories we hear about people who do that well, you just don't hear the stories about how expensive and how difficult it is to achieve. Capital markets, the stock market, the bond market, particularly in the developed countries, the United States and Europe, are incredibly efficient. This is part of the genius of capitalism. Those little opportunities are there, are quickly grabbed and taken away. If you think you can compete against people in that market and outdo them, great. And, if you succeed, that's what makes this such a great system. But, for most folks it's much better off to have the slow and steady approach of basic exposure to markets through passive programs, some well managed diversified programs, take advantage of target date funds, and leave the day trading to the folks who can stomach the losses that often come with that.

Host:

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Geraldine, can you add our list of next steps on where we want to go with developing these strategies and plans?

Geraldine Jimenez:

Yes. The first part really, again, is back to that individual situation. It's amazing how many people don't sit down with those loved ones, the family members and talk about where do we want to be when, because unless you know where you're going it's hard to come up with a plan. So, when do you want to retire? And, what type of income do you think you need in retirement? As study show, people need anywhere from 70 to 90%. Well, of course, that's very dependent upon what you want to do in your retirement. Are you traveling a lot? Are you doing volunteer work? So you need to have those conversations and then decide what type of income you're going to try and replace in retirement. Then come up with, okay, if I invest that monthly, where will that take me and how much do I need to contribute and what type of investment do I need? Again, a diversified investment. Reach out for resources. You can go to CalPERS website or many resources about investment opportunities, or target date funds. And, so, make that first step, cause that's what's important to get you on your way saving for retirement.

Host:

As we wrap things up here, any final thoughts from either of you on what we should leave the folks with?

Joe Dear:

Well, if you're not started, get started. And, if you are going, make a deal with yourself. Next time you get a pay raise, put a significant chunk of that towards your retirement savings. If you can, if you can get one in the public sector these days. But think about that long term and that sort of save for tomorrow, because the power of compounding tax free is enormous. These investments, these deferred compensation investment arrangements are some of the best things available out. And you should do the most you can, the most you possibly can with that. Get a diversified portfolio, think long term, and enjoy the benefit in retirement.

Host:

That says it.

Geraldine Jimenez:

Yes. And, of course, CalPERS is here to help you understand your current benefits to make these decisions.

Host:

Thank you both. Joe Dear, Geraldine Jimenez, thank you so much for your contribution here today. As you've heard, it's important to know your options and shape them to your personal needs. It's our hope that you've received some

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food for thought about how to pave the way toward greater financial security when you retire. You'll find more information on this topic on the web at "CalPERS.ca.gov." From all of us here at CalPERS, thank you for watching.

### **End of Audio Transcript**

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